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JAPAN - ARAB STATES: Tokyo is preparing to increase its aid to Arab countries as part of its effort to ensure a steady flow of oil from Arab producers. Tokyo recently gave the International Red Cross a $1-million grant to aid wounded Egyptian soldiers, and in 1974 it will increase from $1 million to $5 million its yearly contribution to the UN for Palestinian refugee relief. In addition, Japan will expedite disbursement of loans agreed to earlier this year--a $30-million project loan to Syria and a $10-million commodity loan to Egypt.

Tokyo is considering loan requests from Iraq, Jordan, Libya, Sudan, Morocco, Algeria, and Tunisia, as well as a second loan request by Cairo. Saudi Arabia is seeking further technical assistance. There are indications that several loans under consideration--such as those to Egypt, Iraq, and Algeria--are much larger than the earlier ones to Egypt and Syria. Japanese Deputy Prime Minister Miki is being sent to the Middle East to discuss the Arab requests.

Tokyo also is reportedly willing to help finance the reopening of the Suez Canal, and may join with private Japanese lenders in a $500-million credit to Iraq to finance construction of an oil refinery, pipelines, and a liquefied petroleum gas plant. In addition to getting official Japanese aid, the Arab countries would like to secure sizable amounts of Japanese private capital and assistance to help industrialize their economies.

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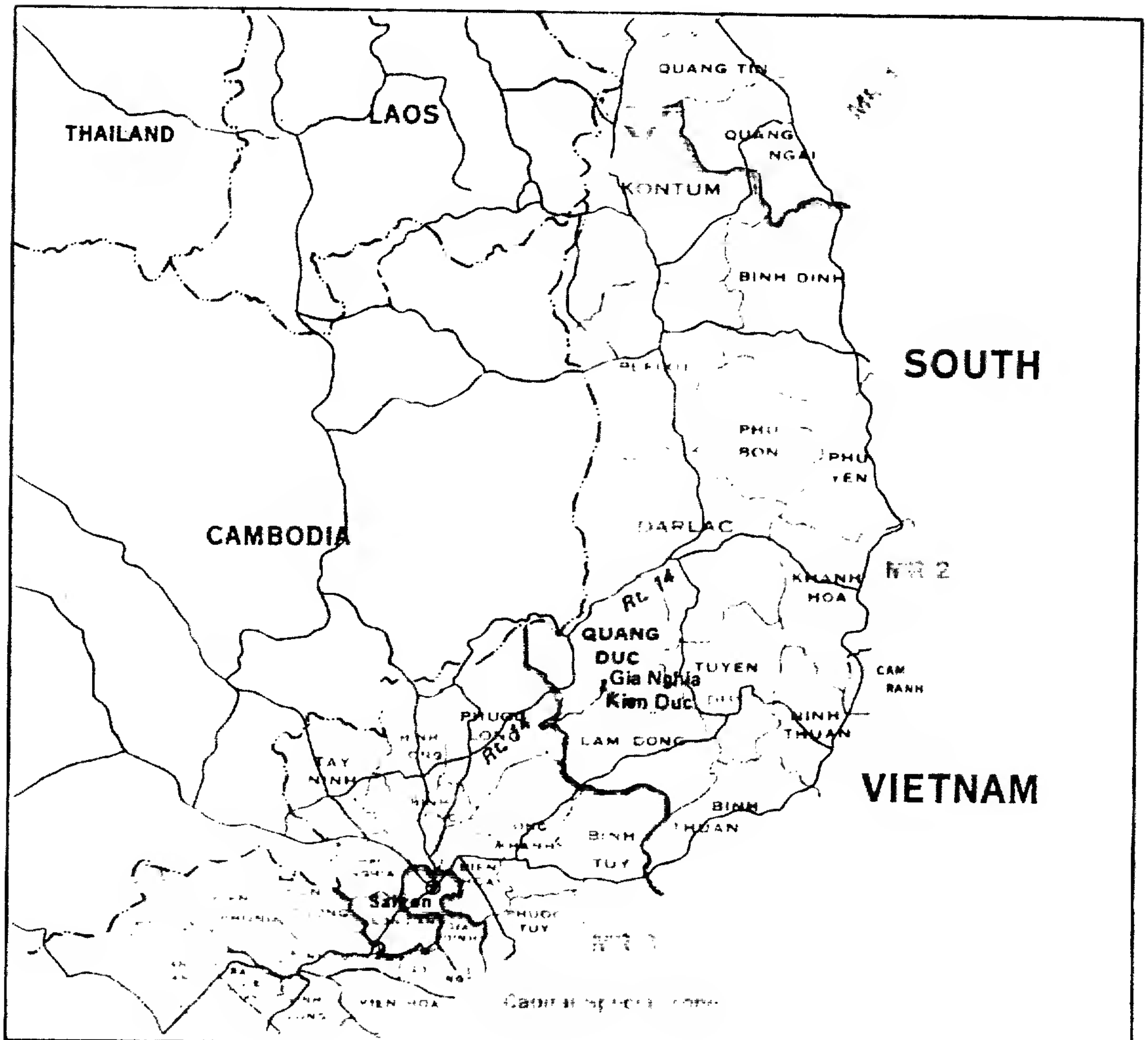
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C SOUTH VIETNAM: Heavy attacks by North Vietnamese units in Quang Duc Province have dealt the South Vietnamese a severe setback. Communist units have overrun the Kien Duc District capital and are threatening the provincial capital at Gia Nghia, 12 miles away. Field reports indicate that the Communists have used tanks and artillery effectively to support their attacks despite heavy government air and artillery strikes.

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The loss of Kien Duc, the first district capital to be captured by the Communists since the beginning of the cease-fire, will be a severe psychological blow to South Vietnamese units in the highlands. Moreover, if the Communists hold their gains in Quang Duc, they will have secured the remaining link in their north-south supply corridor to bases north and west of Saigon. In addition, they will have served notice of their readiness to respond strongly to any further government plans to attack so-called "liberated areas." Although there are no indications that the North Vietnamese intend to extend the current stepped-up fighting to other areas, additional Communist moves could be triggered by government retaliatory actions elsewhere or by continued Communist successes in the highlands. [redacted]

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NATO: Several members of the alliance are prepared to help relieve the balance-of-payments burden the US incurs from stationing troops in Europe, but others--particularly the British and West Germans--continue to maintain a reserved or negative attitude toward multilateral burden-sharing proposals.

The response to US suggestions for reducing the balance-of-payments deficit has varied:

--Belgium, Canada, Denmark, West Germany, the Netherlands, and Norway support the idea that the US share of all or some portions of the NATO budget be reduced. All NATO states agree that the question should be studied.

--Denmark, Italy, the Netherlands, and Norway favor increased purchases of military equipment in the US. Turkey will continue to buy large amounts of US materiel, and the British have indicated London might make additional purchases.

--Only the Netherlands has expressed willingness to assume additional budgetary costs resulting from the stationing of US troops in that country.

--West Germany and Canada maintain that their major contributions to burden-sharing are made through bilateral offset arrangements. The West Germans, however, have offered less than half of what the US desires in the offset agreement.

Other NATO states either are adamantly opposed to contributing to a multilateral burden-sharing system or have reservations about doing so. The British, for example, have stated that they will not participate in any multilateral NATO budget-relief schemes because of their own military balance-of-payments deficit. The Turks, pointing to their large

purchases from the US, have also refused to participate. Luxembourg is still examining the issue, while France, Greece, Iceland, and Portugal have made no commitments and apparently are reluctant to contribute at all.

Bonn's attitude toward its bilateral offset agreement with the US will have a decisive effect on the other allies. If the West Germans continue to offer only about $1.4 billion, the other NATO states will be hard pressed to make up the difference required by the Jackson-Nunn amendment for a full offset of costs. If Bonn substantially increases its offer, however, the others will be encouraged to make additional contributions. [redacted] 25X1

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DENMARK: All five traditional Danish parties sustained whopping losses in yesterday's off-year election as voters flocked to new parties of the center and right. The incumbent Social Democrats, who returned only 46 of their 70 representatives to parliament, are expected to resign today. It may be some time before the ten parties that won seats are able to sort themselves out and form a new government.

The main spoiler was Mogens Glistrup, whose year-old, anti-tax Progress Party won 28 seats in the 179-seat parliament. Another big winner was the Center Democratic Party, founded last month by former Social Democrat Erhard Jakobsen, which took 14 seats. Dissatisfaction over high taxes and inflation plus the radical trend of Danish socialism gave these two newcomers broad appeal.

The Christian Party, running on an anti-pornography and anti-abortion platform, won seven seats; the Justice Party, advocating a single tax, captured five seats. Neither party had been in parliament before.

The Socialist People's Party, which had cooperated with the minority Social Democratic government for the past two years, lost six of its 17 seats. This leftist loss was offset, however, by the six seats won by Danish Communists, who will return to parliament for the first time since 1960.

The three old bourgeois parties--Conservative, Moderate Liberal, and Radical Liberal--suffered a combined loss of 30 seats, returning only 58 representatives. The election results do not include the two seats from the Faeroes, which hold elections next week, and the two seats from Greenland, where returns are always slow. Although these seats were crucial to the one-vote majority controlled by the incumbent Socialist government, they probably will have little effect on the plethora of parties in the new parliament.

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EUROPEAN COMMUNITIES: During a two-day meeting in Brussels which ended yesterday, EC finance ministers adopted a watered-down version of a Commission proposal for concerted anti-inflation action. Adoption of the program will permit member countries to pursue their own policies--as in the past--but with stronger Community backing. This will be of most immediate benefit to Paris, which hopes to mitigate unfavorable public reaction to several anti-inflation measures it plans to introduce later this week. The ministers also agreed to postpone a decision on pooling some of their monetary reserves until at least next June.

The EC anti-inflation plan outlines a wide range of suggested monetary and fiscal policy actions, country monitoring systems for prices and profits, and increases in import quotas. Although the plan includes most of the points outlined in the Commission's original proposal, it merely recommends that members follow a restrictive monetary policy, take deflationary tax action "if possible," and curb increases in public spending during the first quarter of 1974. Paris had requested an EC-wide income policy, but strong West German resistance resulted in a compromise whereby member states are requested to monitor prices and profit margins. The only area in which the EC probably will take joint action is through increases in import quotas, but it is not clear whether the quotas for sensitive goods such as textiles and processed agricultural commodities will be increased.

EC members are not likely to take seriously many of the Commission's recommendations. As the recessionary effects of Arab oil restrictions become evident, efforts to maintain employment will take precedence over anti-inflationary actions.

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The decision to postpone action on the issue of reserve currency pooling reflects strong opposition to the proposal by the countries which would contribute the largest share of reserves: Germany, France, and the Netherlands. As an alternative to reserve pooling, the EC will seek to increase the availability of short-term credits to provide greater support for the European joint float when it comes under increasing pressure as a result of Arab oil restrictions. But Bonn, Paris, and The Hague have indicated that they do not want any sizable increase in credits at this time. 25X1

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TRINIDAD AND TOBAGO: Eric Williams, in an eleventh-hour reversal, has decided to continue as Prime Minister and leader of the People's National Movement until general elections are held.

His change of mind evidently resulted in part from his intense dislike for former attorney general Karl Hudson-Phillips, who had emerged as his most probable successor. In addition, he appeared genuinely concerned that a change in leadership would generate sharp racial divisions and other conflicts in the party that might result in its eventual disintegration.

Williams' capricious behavior probably has embittered a large segment of the party. Large-scale defections are unlikely unless Williams takes punitive measures against the Hudson-Phillips faction. The long-term viability of the party, however, could be threatened if Williams continues to oppose development of a new generation of party leaders.

Differences within the party have aroused little interest among the population, which is more concerned with the country's serious social and economic problems. Rising prices and declining public services have been aggravated by dislocations in the petroleum refining industry caused by a cutback in Arab oil deliveries. The powerful labor unions are increasingly militant and are agitating for drastic solutions.

Meanwhile, the trend among opposition parties toward revitalization and possible coalition may present Williams' party with a strong challenge in the next election. 25X1

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FOR THE RECORD*

<u>Turkey</u>: In a nationwide address on 4 December, Turkish President Koruturk reported the results of his contacts with political leaders aimed at the formation of a government. He revealed that all his efforts to promote a government based on the elections on 14 October had failed, and said that the question of new elections was for the Parliament to decide. Noting that the military had intervened in the past only when the country was threatened with chaos resulting from unjustified political squabbles, he suggested as a solution to the impasse the formation of a national coalition government representing all parties. [redacted]

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<u>China-Senegal</u>: In late November, China extended its first economic aid to Senegal, a $48-million interest-free credit, and signed the first trade agreement between the two countries. No specific projects were announced, but further discussions on projects probably related to agriculture and water-resources development may be held when President Senghor visits Peking next spring. [redacted] 25X1

<u>International Monetary Developments</u>: The dollar again strengthened markedly against major European currencies in light trading yesterday in continuing response to European oil uncertainties. The guilder was under the most pressure, with the Dutch central bank intervening in moderate amounts to keep its currency within the European band. The price of gold also moved up sharply, closing at about $106 an ounce in London, more than $5 above Monday's closing. Gold apparently has joined the dollar as the preferred alternative of some traders to the European currencies. [redacted] 25X1

**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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